

A church-controlled commercial printing corporation whose business earnings are paid periodically to the church, but which has no other significant charitable activity, is a feeder organization as described in section 502 of the Code and does not qualify for exemption under section 501(c)(3).

Advice has been requested whether the organization described below qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization is a charitable corporation formed by a church to promote and provide financial support for the charitable programs of the church through the performance of certain printing functions for the church and the production of income for church use. It seeks to accomplish these charitable objectives by printing religious materials for the church at cost and in addition derives substantial profit from the operation of a commercial printing business. The publication functions performed for the church account for approximately 10 percent of the overall publishing activities of the organization. All of its profits are derived from the commercial printing business. In accordance with an express requirement in the articles of incorporation, all the net income of the organization is paid over to the church at the end of each calendar quarter of operation.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 502 of the Code provides that an organization operated for the primary purpose of carrying on a trade or business for profit shall not be exempt from taxation under section 501 on the ground that all of its profits are payable to one or more organizations exempt from taxation under section 501.

Section 1.502-1(a) of the Income Tax Regulations provides in effect that for the purposes of section 502 as applied to organizations described in section 501(c)(3) in determining the primary purpose for which an organization is operated, consideration is to be given to the relative size and extent of the trade or business activities of the organization and to whether it has any significant charitable activities other than the required payment of all of its profits over to one or more other charitable organizations that are exempt under section 501(c)(3). If its principal income-producing activity is the conduct of trade or business and it has no significant charitable activity other than the required payment of all of its profits to one or more charitable organizations exempt under section 501(c)(3), it is deemed to be operated for the 'primary purpose' of carrying on a trade or business for profit within the meaning

of section 502.

Although the organization may be said to be organized and operated exclusively for charitable purposes by virtue of the fact that the beneficial use of all of its assets is effectively dedicated to exclusively charitable objects, its only basis for qualifying in that respect, apart from the relatively insignificant amount of printing performed at cost for the church, is that all of its profits are required to be paid to the church.

Since the organization has no other significant charitable activity and its principal income-producing activity is the conduct of a trade or business, it is held that it is precluded from exemption under section 501(c)(3) by reason of section 502.

Compare Revenue Ruling 68-26, 1968-1 C.B. 272, which holds that an organization controlled by a church to print and sell educational and religious material exclusively to the church's parochial school system is not precluded from exemption under section 501(c)(3) of the Code by section 502.